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MEMORANDUM

To: The Commission on State Tax and Financing Policy

From: Heath Holloway

Re: State Tax Credits for Hiring Ex-felons

Date: November 18, 2013

This memorandum contains information on the number of ex-felons in the labor force, the level of educational attainment of ex-felons, and tax incentives enacted to encourage employers to hire ex-felons.

Ex-felons in the Labor Force

Neither the U.S. Department of Labor nor the U.S. Department of Justice track ex-felons in the labor force. A 2010 study from the Center for Economic and Policy Research estimated that there were 12.3 million to 13.9 million ex-felons in the United States in 2008. (Only 44% of convicted felons are incarcerated, the rest are given probation.) That translates into 1 out of 15 working-age adults.¹ Based on their analysis, approximately 268,000 working-age Indiana residents are ex-felons

A 2008 study of recently released offenders conducted by the Urban Institute found that 65% of the respondents were able to find employment within the first nine months of their release. However, only 45% were employed at the time of the survey.² Other researchers have estimated the unemployment rate of ex-felons to be between 25% and 40%.

In 2012, about 18,600 individuals were released from an Indiana correctional facility. Assuming the same amount of individuals are released each year, there may be 8,370 to 12,000 ex-felons annually entering the workforce within the first year upon release. The estimated number of ex-felons annually entering the Indiana workforce increases to 19,000 to 27,400, if individuals who were convicted of a felony but were not incarcerated are also considered.

¹ Schmitt, John and Kris Warner (2010). *Ex-offenders and the Labor Market*. The Center for Economic and Policy Research. November 2010.

² Visser, Christy, Sara Debus, and Jennifer Yahner (2008). *Employment after Prison: A Longitudinal Study of Releases in Three States*. The Urban Institute. October 2008.

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Educational Attainment of Ex-felons

In 2003, the U.S. Department of Justice released statistics on education and correctional populations.³ The following table contains data from that report.

Educational Attainment	Total Incarcerated	Probationers
Some high school or less	41.3%	30.6%
GED	23.4	11.0
High school diploma	22.6	34.8
Postsecondary	12.7	23.6

Source U.S. Department of Justice: Bureau of Justice Statistics.

Tax Incentives to Encourage the Employment of Ex-felons

Described are three tax incentives provided by other states to encourage the hiring of ex-felons.

- Maryland - The *Long-Term Employment of Qualified Ex-felons Tax Credit* allowed an employer to claim a credit for two years after hiring a qualified ex-felon. The credit equaled 30% of the first \$6,000 of wages in the first year and 20% of the first \$6,000 of wages in the second year. The total amount of credit claimed was \$300,000 in FY 2009 and \$300,000 in FY 2010. No new credits were awarded after January 1, 2012.
- Illinois - The *Ex-felons Job Credit* equals 5% of the qualified wages paid or up to \$1,500 per hire. The ex-felon must be formerly incarcerated at an Illinois correctional facility and hired within the first year of their release. There were \$13,000 in claims in FY 2011 on the Illinois Individual Income tax. The credits claimed on the Illinois Corporate Tax were not reported.
- Iowa - The *Deduction for Wages Paid to Certain Individuals* allowed employers to deduct 65% of the wages paid in the first 12 months up to \$20,000 per qualifying employee. The new employee must be disabled or an ex-offender on parole, probation, or a work release program. The total deduction claimed in 2005 was \$18.3 M.

There is also a federal income tax credit for hiring ex-felons and members of other targeted groups. The *Work Opportunity Tax Credit* (WOTC) gives employers a \$2,400 tax credit for hiring qualified ex-

³ Harlow, Caroline Wolf (2003). *Education and Correctional Populations*. U.S. Department of Justice: Bureau of Justice Statistics. April 2003.

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felons. The number of WOTC certifications for hiring ex-felons was 34,700 in FY 2011.⁴ That is less than double the number of felons released from Indiana correctional facilities and 5% of the total number of offenders released from all state and federal prisons in 2011. The program is largely regarded as underutilized, and a study conducted by the Government Accountability Office found the credit to have an uncertain impact on hiring members covered by the WOTC.⁵

⁴ Scott, Christine. *The Work Opportunity Tax Credit (WOTC)*. Congressional Research Service. February 4, 2013.

⁵ Government Accountability Office. (2002). *Business Tax Incentives: Incentives to Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact*. GAO-03-39. December 2002.